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# TALL SHIP EDUCATION ACADEMY

## FINANCIAL STATEMENTS

**June 30, 2008**

**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)**

DATE RECEIVED:



AUDIT REVIEW #(s) 0452

Assigned To: Armstrong

Date Reviewed: 4-1-09

Reviewer's Initials: \_\_\_\_\_

Date Review(s) Completed: \_\_\_\_\_

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**CROSBY & KANEDA**  
Certified Public Accountants

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Dedicated to Nonprofit Organizations

## Tall Ship Education Academy

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# CROSBY & KANEDA

Certified Public Accountants

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Dedicated to Nonprofit Organizations

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Tall Ship Education Academy  
San Francisco, California


We have audited the accompanying statement of financial position of Tall Ship Education Academy as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Tall Ship Education Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Tall Ship Education Academy's 2007 financial statements and in our report, dated February 8, 2008; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tall Ship Education Academy as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2009 on our consideration of Tall Ship Education Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

  
Crosby & Kaneda  
Certified Public Accountants  
Oakland, California  
February 6, 2009

**Tall Ship Educational Academy**  
**Statement of Financial Position**  
**June 30, 2008**  
**(With Comparative Total for June 30, 2007)**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 98,096	\$ 32,688
Certificates of deposit	-	102,126
Contracts/grants receivable	5,500	28,783
Accounts receivable	47,439	3,356
Prepaid expenses	23,250	-
Total Current assets	<u>174,285</u>	<u>166,953</u>
Property and equipment, net (Note 3)	<u>783</u>	<u>1,567</u>
Total Assets	<u><u>\$ 175,068</u></u>	<u><u>\$ 168,520</u></u>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 13,087	\$ 4,907
Deferred tuition, net of subsidy (Note 4)	4,718	-
Total Current liabilities	<u>17,805</u>	<u>4,907</u>
Contingencies (Note 5)		
Net Assets		
Unrestricted	157,263	156,799
Temporarily restricted (Note 6)	-	6,814
Total Net Assets	<u>157,263</u>	<u>163,613</u>
Total Liabilities and Net Assets	<u><u>\$ 175,068</u></u>	<u><u>\$ 168,520</u></u>

See Notes to the Financial Statements

Tall Ship Education Academy

Statement of Activities  
Year Ended June 30, 2008  
(With Comparative Totals for Year Ended June 30, 2007)

	Unrestricted	Temporarily Restricted	Total	
			2008	2007
<b>Support and Revenue:</b>				
Support				
Government contract <i>US 07048516</i>	\$ 40,000	\$	\$ 40,000	\$ 28,783
Foundation and corporate support	59,585	104,300	163,885	99,294
Donations	93,946		93,946	88,899
Event, net	2,725		2,725	5,649
In kind support (Note 7)	16,376		16,376	52,150
Total Support	212,632	104,300	316,932	274,775
Revenue				
Tuition	24,255		24,255	11,785
Interest	5,427		5,427	2,603
Other	175		175	5
	29,857	-	29,857	14,393
Net assets released from donor restrictions (Note 6)	111,114	(111,114)	-	-
Total Support and Revenue	353,603	(6,814)	346,789	289,168
<b>Expenses:</b>				
Program	226,867		226,867	65,882
Management and general	56,967		56,967	51,236
Fundraising	69,305		69,305	41,210
Total Expenses	353,139	-	353,139	158,328
Change in Net Assets	464	(6,814)	(6,350)	130,840
Net Assets, beginning of year	156,799	6,814	163,613	32,773
Net Assets, end of year	\$ 157,263	\$ -	\$ 157,263	\$ 163,613

See Notes to the Financial Statements

Tall Ship Educational Academy

Statement of Cash Flows  
Year Ended June 30, 2008  
(With Comparative Totals for Year Ended June 30, 2007)

	2008	2007
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (6,350)	\$ 130,840
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	784	1,420
Change in assets and liabilities:		
Contracts/grants receivable	23,283	5,617
Accounts receivable	(44,083)	(2,553)
Prepaid expense	(23,250)	
Accounts payable and accrued expenses	8,180	
Deferred tuition net of subsidy	4,718	(11,439)
Net cash provided (used) by operating activities	(36,718)	123,885
<b>Cash flows from investing activities:</b>		
Purchase of certificates of deposit	-	(102,126)
Sale of certificates of deposits	102,126	-
Net cash provided (used) by investing activities	102,126	(102,126)
Net change in cash	65,408	21,759
Cash and cash equivalents, beginning of year	32,688	10,929
Cash and cash equivalents, end of year	\$ 98,096	\$ 32,688

See Notes to the Financial Statements

Tall Ship Education Academy

Statement of Functional Expenses

Year Ended June 30, 2008

(With Comparative Totals for Year Ended June 30, 2007)

	Program	Management and General	Fundraising	Total	
				2008	2007
Salaries	\$ 70,502	\$ 29,144	\$ 15,657	\$ 115,313	\$ 56,095
Payroll taxes	5,726	2,338	1,272	9,366	4,662
Benefits	4,321	1,707	959	7,067	2,920
	<u>80,549</u>	<u>33,189</u>	<u>17,888</u>	<u>131,746</u>	<u>63,677</u>
Ship rental	94,500		5,875	100,375	14,400
Professional fundraiser			38,620	38,620	9,135
Professional services	20,682	6,666		21,307	1,858
Accounting fees		6,714		6,714	6,043
Rent	10,813	2,584		13,397	13,299
Office expenses				-	353
Supplies	4,424	2,565	2,208	9,197	7,933
Postage	244	1,774	833	1,274	-
Printing and publications	610	1,198	2,075	2,808	1,233
Advertising			422	452	1,384
Travel, meals and entertainment	14,319	2,402	849	17,662	-
Bad debt	706			706	9,700
Depreciation		784		784	1,420
Insurance		5,645		5,645	3,384
Dues, licenses, service fees	20	1,889	535	2,369	1,959
Miscellaneous				83	-
	<u>\$ 226,867</u>	<u>\$ 56,909</u>	<u>\$ 69,305</u>	<u>\$ 353,139</u>	<u>\$ 135,778</u>

See Notes to the Financial Statements

TALL SHIPS EDUCATION ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)

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**NOTE 1: NATURE OF ACTIVITIES**

Tall Ship Education Academy (the Organization) is a California nonprofit public benefit corporation, which teaches personal growth through experience-based academic programs for youth of diverse backgrounds, with an emphasis on girls. Being placed in demanding classroom and shipboard environments, students are challenged to learn rigorous skills and to return home anchored in experiences of self-reliance and teamwork. The program is intended to foster a sense of personal responsibility, interdependence and global awareness in order for students to develop the capacity to lead productive lives and build strong communities.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Basis of Presentation**

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets.

**Revenue Recognition**

Contributions are recognized as revenue when received or unconditionally promised. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Income Taxes**

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501 (c) (3) and the California Revenue and Taxation Code Section 23701(d).

**Donated Services**

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.



**TALL SHIPS EDUCATION ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and Equivalents**

For purposes of the statement of cash flows, the Organization considers all cash and other highly liquid investments with maturities of three months or less to be cash equivalents.

**Property and Equipment**

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs and maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment.

**Functional Allocation of Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Reclassifications**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**Prior Year Summarized Information**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**NOTE 3: PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Equipment	\$ 2,351	\$ 10,200
Less accumulated depreciation	<u>(1,568)</u>	<u>(8,633)</u>
Total	<u>\$ 783</u>	<u>\$ 1,567</u>

**TALL SHIPS EDUCATION ACADEMY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)

**NOTE 4: DEFERRED TUITION, NET OF SUBSIDY**

The Organization registers students for the summer session prior to the end of the fiscal year. Summer students are eligible for tuition subsidies, and the subsidy is applied to the prepayment of fees for the summer session. The total of prepaid tuition net of the subsidy was as follows as of June 30, 2008:

Deferred tuition	\$ 55,000
Subsidy for summer session	<u>(50,282)</u>
Total	<u>\$ 4,718</u>

**NOTE 5: CONTINGENCIES**

The Organization receives a portion of its support from the federal government. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's program and activities.

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

**NOTE 6: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were released from donor restriction by incurring expenses satisfying the purposes specified by donors as follows:

	<u>2008</u>	<u>2007</u>
Winter semester scholarships	\$ 104,614	\$ 38,871
Summer semester scholarships	5,500	-
Boat building project	1,000	-
Passage of time	<u>-</u>	<u>20,000</u>
Total	<u>\$ 111,114</u>	<u>\$ 58,871</u>

**NOTE 7: IN KIND SUPPORT**

The Organization participates in the presidential lease program at San Francisco State University (SFSU). In recognition of the benefit it SFSU receives from the Organization's program, it provides the organization with an office on the SFSU campus, provided \$1,136 for travel expenses for the executive director and program director to attend a conference, and during the year ended June 30, 2007, compensated the executive director for six months. The fair market value of this lease was \$9,600 for the years ended June 30, 2008 and 2007.

In addition, the Organization received donations of raffle prizes, food and entertainment services for its annual event.

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# CROSBY & KANEDA

Certified Public Accountants

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## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Board of Directors  
Tall Ship Education Academy  
San Francisco, California

We have audited the financial statements of Tall Ship Education Academy as of and for the year ended June 30, 2008, and have issued our report thereon dated February 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Tall Ship Education Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting. A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not intended to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Tall Ship Education Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our

tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Tall Ship Education Academy in a separate letter dated February 6, 2009.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the California Governor's Office of Emergency Services and is not intended to be and should not be used by anyone other than these specified parties.

*Crasbey & Kameda*

Certified Public Accountants  
Oakland, California  
February 6, 2009

**TALL SHIP**  
EDUCATION ACADEMY



Recreation, Parks & Tourism Dept.  
1600 Holloway Ave  
San Francisco, CA 94132-4161



To: Governor's Office of Emergency Services

From: Nettie Kelly, Executive Director

Date: March 12, 2009

Re: Audit Report for Grant

Enclosed you will find the audit report and management letter for the Tall Ship Education Academy's Project Safe Neighborhoods Grant U 07048516.

Please contact me if you have any questions.

Thank you.

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# CROSBY & KANEDA

Certified Public Accountants

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February 6, 2009

To the Board of Directors  
Tall Ships Education Academy

We appreciate the opportunity to conduct your audit this year. As we've discussed with you previously, we are writing to you as we complete the audit to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the new auditing standard: **Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified in an Audit**. The new standard applies to the audits of any financial statements with periods ending on or after December 15, 2006.

In planning and performing our audit of your financial statements for period ending June 30, 2008 we applied generally accepted auditing standards (GAAP) as we considered your internal control over financial reporting (internal control) as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal control. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of your internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify certain deficiencies in internal control that we consider to be significant deficiencies that are discussed below. It is important to note that control deficiencies are not necessarily problems you will choose to address; however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks. In this year's audit, we identified the following:

## Significant Deficiencies

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects your entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal control. We consider the following deficiencies to be significant deficiencies in internal control:

### **Significant deficiency regarding monitoring of controls – design deficiency:**

The COSO framework for effective internal control over financial reporting states that monitoring should be performed to assess the quality of the company's system of internal control. Management has not performed either ongoing or separate reconciliations of compensation to the quarterly From 941

reports. As a result, the company's controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner.

**Significant deficiency regarding preparing financial statements (design deficiency):**

The COSO framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the company's audited financial statements and then should determine how those identified risks should be managed. Management has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including footnote disclosures.

**Significant deficiency regarding complete accrual of expenses and deferral of revenue:**

The COSO framework for effective internal control over financial reporting states that control activities should be selected and developed to mitigate risks to the achievement of financial reporting objectives, which would include recording prepayment of expenses for the subsequent accounting period and receipt of tuition paid in advance as deferred revenue. This year, these procedures were performed by an employee who did not have complete current GAAP knowledge as it pertains to maintaining complete records of prepaid expenses and deferred revenue. As a result, material disclosure and classification misstatements were not prevented or detected prior to our review.

**Material Weaknesses**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by your internal control. We noted no significant deficiencies that we believe to be material weaknesses.

This written communication related to the significant deficiencies identified during this year's audit is intended solely for the information and use by your management, those charged with your organization's governance, others you deem appropriate within your organization, and any governmental authorities you need to share this information with. It is not intended for use by anyone other than these specified parties.

We are available to answer any questions that you may have related to the control deficiencies we identified during your audit or discuss the benefits and associated costs of any options you have for

remedying them if you would like to do so. If you would like to set up a meeting to discuss this communication or your organization's internal control, please feel free to contact us.

We appreciate the opportunity to conduct your organization's audit.

Sincerely,

A handwritten signature in cursive script that reads "Crosby & Kaneda".

Crosby & Kaneda  
Certified Public Accountants